

Message Text

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SUBJ: TRADE AND INVESTMENT OPPORTUNITIES ARISING FROM THE
ENERGY SITUATION

REF: STATE 40537

1. SUMMARY. CURRENT AND PROJECTED WORLD-WIDE ENERGY SITUATION HAS SUBSTANTIALLY IMPROVED ECONOMIC PROSPECTS FOR MAJOR US-SOVIET PROJECTS IN BOTH ENERGY AREA AND ENERGY-INTENSIVE INDUSTRIES. END OF ARAB OIL BOYCOTT AGAINST US MAY ALSO OPEN WAY FOR DIRECT SALES OF SOVIET CRUDE AND PRODUCTS TO US. OVERALL OPTIMISTIC PICTURE WOULD BE BALANCED, HOWEVER, BY POSSIBILITY THAT SOVIETS WILL DRIVE HARDER BARGAIN IF THEY SENSE GREATER DEGREE OF URGENCY ON PART OF US INDUSTRIES INVOLVED. EMD SUMMLRY.

2. ENERGY PROJECTS. LEAVING ASIDE VERY IMPORTANT POLITICAL CONSIDERATIONS, PRIOR TO OCTOBER 1973 THERE WERE DOUBTS AMONG POTENTIAL US PARTICIPANTS AS WELL AS INTERESTED GOVERNMENT AGENCIES THAT MAJOR PROPOSED NATURAL GAS PROJECTS (NORTH STAR AND YAKUTIA) WOULD BE ECONOMICALLY FEASIBLE
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IN TERMS LANDED PRICE FOR LNG IN US. WHILE SOME DOUBTS ON THIS POINT REMAIN, WE HAVE IMPRESSION THAT SHARP INCREASE

IN ENERGY PRICES SINCE OCTOBER 1973 HAVE MADE SOVIET LNG PROJECTS CONSIDERABLY MORE ATTRACTIVE. UNLESS SOVIETS RAISE THEIR PRICES TO UNREALISTIC LEVELS. AT SAME TIME, DESIRABILITY OF DIVERSIFYING ENERGY SOURCES, WHICH SEEMS CLEAR CONCLUSION IN WAKE OF ARAB BOYCOTT AND OTHER SUPPLY PROBLEMS, HAS WORKED TO ADVANTAGE OF SOVIET PROJECTS. IN THIS CASE, POSSIBLE RELUCTANCE OF SOME US ENERGY COMPANIES TO BECOME EVEN SLIGHTLY DEPENDENT UPON USSR IS PROBABLY OVERCOME BY RECOGNITION THAT SOVIETS ARE, ON BALANCE, MORE RELIABLE SUPPLIERS THAN ARABS AND OTHERS HAVE RECENTLY PROVEN TO BE.

3. ALTHOUGH SOMEWHAT LESS ADVANCED THAN PROPOSED GAS PROJECTS, VARIETY OF PROPOSALS FOR US INVOLVEMENT IN SOVIET OIL PROJECTS HAVE BEEN ACCELERATED BY POST-OCTOBER PROBLEMS IN WORLD OIL INDUSTRY. OF THESE SAKHALIN OFF-SHORE PROJECT SEEMS MOST ADVANCED. ON BASIS DISCUSSION WITH SENIOR ATLANTIC-RICHFIELD OFFICIALS, THERE IS NO DOUBT THAT ARCO'S INTEREST IN SAKHALIN PROJECT IS MUCH GREATER NOW THAN IT WAS PRIOR TO OCTOBER 1973. BOTH ECONOMIC AND POLITICAL FACTORS, IN VIEW OF ARCO OFFICIALS, NOW MAKE SAKHALIN PROJECT QUITE ATTRACTIVE. BOTH GULF AND MOBIL HAVE ALSO DISCUSSED SAKHALIN OFF-SHORE DEVELOPMENT WITH THE SOVIETS. EXXON HAS SHOWN INTEREST IN OFF-SHORE EXPLORATION IN THE CASPIAN AND WHITE SEAS; GLOBAL MARINE WILL SOON DISCUSS OFF-SHORE DEVELOPMENT IN ARCTIC WITH SOVIETS. LARGER, AND MORE COMPLEX, PROPOSAL FOR PIPELINE FROM WEST SIBERIA (TYUMEN') TO PACIFIC COAST, IN WHICH GULF HAS BEEN INTERESTED, DEPENDS PRIMARILY UPON ABILITY OF SOVIETS AND JAPANESE TO REACH AGREEMENT. WE HAVE IMPRESSION FROM TALKING TO JAPANESE HERE THAT CURRENT ENERGY SITUATION HAS MADE TYUMEN' PIPELINE SOMEWHAT MORE ATTRACTIVE, BUT IT IS BY NO MEANS CLEAR THAT THIS POSITIVE FACTOR HAS BEEN SUFFICIENT TO OVERCOME JAPANESE DOUBTS ON BOTH ECONOMIC AND POLITICAL (I.E. PRC OPPOSITION) GROUNDS.

4. ENERGY-INTENSIVE INDUSTRIES. FOR SOME TIME, SOVIETS HAVE BEEN PUSHING IDEA THAT THERE IS MAJOR ROLE FOR US INDUSTRY IN DEVELOPMENT OF ENERGY-INTENSIVE PRODUCTION
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FACILITIES (ALUMINUM, FERRO-ALLOYS, COPPER, AMMONIA, METHANOL IN SIBERIA. AT MOST RECENT MEETING OF THE US-SOVIET JOINT COMMERCIAL COMMISSION IN OCTOBER 1973, SOVIETS AGAIN STRESSED THIS ASPECT OF OUR RELATIONS AND WE AGREED BRING POSSIBILITY FOR COOPERATION TO ATTENTION OF US INDUSTRY. SINCE THAT TIME, INTEREST OF US INDUSTRY IN PROJECTS OF THIS TYPE APPEARS TO HAVE INCREASED.

KAUSER INDUSTRIES IS DISCUSSING PARTICIPATION IN MASSIVE

ALUMINUM INDUSTRY PROJECT, AS WELL AS COOPERATION IN PRODUCTION OF COAL AND FERRO-ALLOYS; KENNECOTT AND ANACODA ARE LOOKING SOMEWHAT MORE SERIOUSLY AT THE UDOKAN COPPER PROJECT; KELLOGG, LUMMUS AND OTHER CHEMICAL ENGINEERING FIRMS ARE INVOLVED IN DISCUSSION OF SIBERIAN CHEMICAL DEVELOPMENTS. IN ALL THESE CASES (AND PROBABLY IN OTHERS WHICH HAVE NOT COME TO THE EMBASSY'S ATTENTION), US FIRMS INVOLVED FIND PROPOSED PROJECTS MORE ATTRACTIVE AS RESULT OF CURRENT ENERGY SITUATION AND WORLD-WIDE SHORTAGE OF BASIC RAW MATERIALS.

5. SOVIET ATTITUDE. SOVIET UNION'S REACTION TO CURRENT ENERGY SITUATION AND WHAT APPEARS TO BE WORLD-WIDE SHORTAGE OF BASIC RAW MATERIALS HAS, THUS FAR, FOLLOWED TWO QUITE INDEPENDENT COURSES. FOLLOWING OBVIOUS IDEOLOGICAL BIAS, SOVIETS HAVE BLAMED ENERGY CRISIS AND RESULTING DISLOCATIONS ON WESTERN OIL MONOPOLIES AND HAVE WELCOMED ARAB EFFORTS ELIMINATE OR REDUCE OIL COMPANIES' ROLE IN INTERNATIONAL OIL BUSINESS. AT SAME TIME, SOVIETS HAVE NOT BEEN SLOW TO TURN RECENT PRICE ESCALATION FOR ENERGY AND OTHER BASIC MATERIALS TO THEIR ADVANTAGE IN CASES WHERE CONTRACTS TIE PRICES TO WORLD MARKET. IT REMAINS TO BE SEEN HOW, IF AT ALL, THE SOVIETS WILL SEEK TO FACTOR PRICE MOVEMENTS SINCE LAST OCTOBER INTO THEIR NEGOTIATIONS WITH US FIRMS ON GAS, OIL, AND ENERGY-INTENSIVE PROJECTS. THUS FAR, EMBASSY HAS RECEIVED NO RPT NO INFORMATION FROM US FIRMS INDICATING THAT SOVIETS PROPOSING INCREASE COSTS OF PROJECTS TO REFLECT THESE DEVELOPMENTS. SHOULD THEY ATTEMPT TO DO SO, PRICE ADVANTAGES DISCUSSED ABOVE WOULD, OF COURSE,
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